

## The Advantages of Outsourcing

### Why outsource?

The concept of outsourcing became popular in the 1990s, as companies sought to address the rising labour costs of that period. As the model developed, outsourcing became known not only as an excellent cost-cutting measure, but as a strategic planning and business outcome tool. Today, it continues to be an attractive option for businesses of all sizes.

Initially, outsourcing was the preserve of the biggest companies. But in recent times, SMEs have realised that outsourcing some or all of their business functions can allow them to manage their time and budgets more effectively and to enhance their processes and controls.

All businesses will naturally incur a certain amount of overhead costs to meet statutory demands (for example: legal, tax, HR, health & safety, payroll and bookkeeping expenses), and this is one area where an outsourced solution is often effective. In fact, in many cases, SME's simply do not have the resources to meet their back office requirements – and thus depend on the concept for their existence.

Even today some businesses have not truly grasped the full concept of outsourcing, nor have they explored the potential strategic advantages and monetary savings from which they could benefit. The effect of introducing outsourcing into a business infrastructure can bring a wider range of business experience and insight to an organisation in a very short time.

### Business focus

The Financial Services sector has a particular reason to embrace outsourcing: the high potential value of an employee's time. Put simply, an hour spent on internal process is an hour lost to revenue generation activities.

Given that these activities may produce substantial incomes, it is fair to describe this as brutally as "our time is less valuable than your time."

Of course, all types of firm will benefit by being allowed to specialise – focusing on core business rather than back office functions. A company can concentrate on the right strategic areas (customers, markets and competitors), identify specific trends and respond to changing market conditions. It looks towards its outputs and not its inputs, which allows process innovations and the ability to deliver maximum customer value.

### Controlling costs

Cost cutting may not be the only reason to outsource services - but it can be a major factor. Outsourcing will convert fixed costs into variable costs and will release capital for investment allowing businesses to avoid large expenses during the early stages of their evolution. Investors view outsourcing positively as it allows companies to put more capital into revenue producing activities. Outsourcing can deliver significant cost savings in comparison to the cost of in-house services.

There are three main reasons for this:

First, an outsourcing service will pass on benefits from its processes and economies of scale.

Secondly, an outsourcing company can lower the cost of labour. Lower direct salary costs may be applicable if the provider operates from a lower cost location. Savings should also be achieved, for example, by reducing exposure to the ever increasing burden of employment law, through the saving of recruitment costs, by reducing HR and payroll administration and even from lower occupancy costs resulting from a smaller headcount.

Thirdly, through an outsourcing company one buys a 'piece' of many different people with different skill sets and with different levels of experience. Thus, an appropriate level of resource can be allocated to a particular task at the appropriate cost.

### **Successfully managing projects**

Projects generally need variable resources and expertise in order to succeed. An in-house function may experience difficulties in locating and hiring staff capable of meeting the demands of the project. A good outsourcing company will have the resources, the know-how and the flexibility to meet tight, ad hoc project schedules. Outsourcing in these situations can be an ideal and very cost effective solution.

### **Reducing risk and enhancing controls**

All companies have to manage a certain amount of risk (markets, financial conditions, technologies, government regulations, competition...) but choosing to outsource some business functions enables the providers to assume and manage these risks for their clients. The providers can generally more ably administer these risks in their areas of expertise.

Organisations with smaller numbers of employees can be exposed to control risks in their accounting and other systems through having insufficient resources to segregate duties. This can also lead to the polarisation of important corporate knowledge with one or two employees. Outsourcing can be used to manage these risks through the development of suitable processes which segregate functions and provide additional management oversight within a larger team provided by the outsourcing company.

### **Flexibility**

Outsourcing allows businesses to find and choose a suitable provider who can complement their own business structure and processes.

A good outsourcing company will want to work very closely with a client; it will take time to understand their client's business in order to ensure their outsourcing needs are appropriately addressed. The provider will want to be viewed as the client's 'partner' rather than a vendor, and to align with their client's goals and objectives - ultimately building a long-term relationship.

When a resource is no longer needed, it is more difficult to close down an in-house department than it is to stop working with an external provider.

## Monitoring and customer satisfaction

Finally, due to the nature of the business arrangement between client and outsourcing provider, there is a very strong emphasis on customer satisfaction and service provision.

Regular monitoring and dialogue with clients is critical in order to maintain good long-term working relationships and to meet a client's ever changing needs. There is likely to be a noticeable increase in productivity, quality and performance metrics in the functions outsourced. Should there be any issues, it is in the outsourcing company's interests to protect their reputation and relationships by addressing these swiftly and firmly.

## Summary

- Outsourcing is just as relevant to the small company as it is to the large company – sometimes more so.
- The immediate and obvious financial advantages come in the areas of capital and back-office cost savings and in the increased revenues generated by increasing focus on commercial imperatives.
- There are several other benefits that may not be immediately apparent to newcomers to the field including: risk-reduction, enhancement of controls, project management, flexibility and improved processes.

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